



An Audit of the Texas Historical Commission

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Executive Summary

Purpose and Scope

Objectives of the Texas Historical Commission (Commission) audit were to determine whether:

- Payments were processed according to applicable state laws, Comptroller requirements, and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit is conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period beginning Dec. 1, 2016, through Nov. 30, 2017.

Background

The Texas Historical Commission (THC) is the state agency for historic preservation. The Texas State Legislature established the agency in 1953 as the Texas State Historical Survey Committee with the task to identify important historic sites across the state. The Texas Legislature changed the agency's name to the Texas Historical Commission in 1973. Along with the name change came more protective powers, an expanded leadership role, and broader educational responsibilities. The Commission's mission is to protect and preserve the state's historic and prehistoric resources for the use, education, enjoyment, and economic benefit of present and future generations.

Texas Historical Commission website
<https://www.thc.texas.gov/about>

Audit Results

The Commission generally complied with the General Appropriations Act (GAA), other relevant statutes, and Comptroller requirements. Auditors found no issues with payroll transactions, travel transactions, and its security processes. However, the Commission should consider making improvements to the Commission's purchase and procurement processes, its property management, and its internal control structure.

The auditors reissued one finding from the last audit conducted at the Commission related to internal control structure. Auditors originally issued this finding in August 2014. An overview of audit results is presented in the following table.


Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, other pertinent statutes, and Comptroller requirements?	No issues.	Fully Compliant
Non-Overnight Travel Transactions	Did non-overnight travel transactions comply with the GAA, other pertinent statutes, and Comptroller requirements?	No issues.	Fully Compliant
<u>Contracting and Procurement Process</u>	Did the contracts and related payments comply with the GAA, Commission internal policies and procedures, best practices, and other pertinent statutes?	<ul style="list-style-type: none"> • One contract was missing the nepotism disclosure form. • One contract had an incomplete record of bid proposal receipts. • Two contracts were not checked for the vendor payment hold status. • Two contracts were missing the vendors' HUB subcontracting plans. 	Compliant, Findings Issued
<u>Purchase Transactions</u>	Did purchase transactions comply with the GAA, other pertinent statutes, and Comptroller requirements?	One payment of an unauthorized fee.	Compliant, Findings Issued
Travel Transactions	Did travel transactions comply with the GAA, other pertinent statutes, and Comptroller requirements?	No issues.	Fully Compliant
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues.	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Internal Control Structure</u>	Are incompatible duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	 Auditors identified two employees with multiple incompatible duties. Auditors did not detect any payment documents processed because of a single employee's actions.	Control Weakness Issues Exist
Security	Are Commission employees who are no longer employed, or whose security was revoked properly communicated to the Comptroller's Office?	No issues.	Fully Compliant



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Commission must strengthen certain controls over contracting, including:
 - Completing the required ethics forms for contracts valued over one million dollars,
 - Recording the fair and orderly receipt of proposals,
 - Reviewing proposals for all requirements including the submission of a HUB subcontracting plan when applicable, and
 - Checking the financial and political status of the awarded vendor against federal and state requirements.
- The Commission must not revise purchase orders without additional consideration provided by the vendor.
- The Commission must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the user from the agency's signature card.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample of 20 employees (54 payroll transactions totaling \$96,842.97) to ensure that the Commission complied with the GAA, other relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in payroll transactions.

Non-Overnight Travel Transactions

Auditors developed a representative sample of 10 transactions (totaling \$213.47) to ensure that the Commission complied with the GAA, other relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in these transactions.

Contracting and Procurement Process

We identified two contracts totaling \$3,903,920 in which the Commission did not satisfy all of the procurement processes required by the [State of Texas Procurement and Contract Management Guide](#). The Commission indicated it did not have contract documentation because of an oversight and because of misinterpretation of the requirements surrounding vendor compliance reviews.

The following issues were identified:

- Missing nepotism disclosure forms.
- Missing record of bid proposal receipts.
- Incomplete vendor compliance reviews.
- Missing vendor HUB review.

The [State of Texas Procurement and Contract Management Guide](#) provides a framework for navigating the complexities of Texas procurement law, and offers practical, step-by-step guidance to ensure agencies acquire goods and services in an effective and efficient manner.

Missing Nepotism Disclosure Forms

With contracts valued over \$1 million, [Texas Government Code, Section 2262.004](#) requires state agency purchasers to disclose relationships that might pose a conflict of interest in awarding a contract. See [State of Texas Procurement and Contract Management Guide](#) – Agency Review of Required Disclosures section. One of the two contracts reviewed was required to have signed State Auditor's Office conflict of interest/nepotism disclosure forms for each employee involved in the procurement. The contract file did not contain the forms due to an oversight in the procurement process. Without the SAO forms in place, the procurement might not be fully in compliance.



Recommendation/Requirement

We recommend the purchasing staff obtain and complete the SAO Nepotism Disclosure Forms. The Commission agreed to complete the forms and add them to the contract file.

Commission Response

The agency Contract Specialist will ensure that SAO Nepotism Disclosure Form is completed by any staff involved in major contract solicitations and award of any major contract (per TGC 2262.004). The agency has added this requirement to the Solicitation Compliance Checklist that is performed and completed prior to any award of any contract, including major contracts.

The agency's Contract Manager reviews the Solicitation Compliance Checklist and confirms completion with signature and date.

Incomplete Record of Bid Proposal Receipts

One of the two contract files did not contain evidence of timely and complete receipt of proposals during the bid process. The bid receipt log had been started and included the names of the solicited parties, but it was not completed with the date or time the proposals were received, and whether they conformed to proposal submittal requirements. Some of the losing bid proposals were kept, but mail packaging and timestamps indicating time of submittal were not. "Responses must be received on or before the due date and time designated in the solicitation. ... To ensure fairness to all respondents, no submitted responses should be opened or reviewed before the due date and time has passed..." See [State of Texas Procurement and Contract Management Guide](#) – Solicitation – Receipt and Control of Responses section. Without a complete log and evidence of when proposals were received, auditors could not determine if the proposals were opened in a fair and timely manner. At the time of the proposal deadline for the contract reviewed, the Commission was not yet using a dedicated clock with a timestamp function to receive the proposals, but has since implemented one.

Recommendation/Requirement

The Commission must conduct a managerial review immediately after the proposal deadline for the contract. The review should include a check for records of proposal receipts indicating time and date.

Commission Response

The agency date/time stamps every solicitation received and records in the bid log. A copy of the time stamp and bid log will be placed in the solicitation file per agency procedure. It is a requirement of the Solicitation Compliance Checklist that is completed for each solicitation. The agency's Contract Manager reviews the Solicitation Compliance Checklist and confirms completion with signature and date.



Violation of Warrant Hold Statutes

The vendors for the two contracts reviewed were not checked for a Texas Comptroller's vendor payment hold status. The Commission relied upon automated pre-payment warrant hold checking done by the Comptroller, and upon inclusion of a clause in the vendor's contract requiring payments to be applied first to any debt to the state owed by the vendor.

Agencies are required to verify a vendor's hold status when the transaction involves a written contract. For transactions involving a written contract, the warrant hold check must be performed not earlier than the seventh day before and not later than the date of contract execution. If the vendor is on warrant hold, the agency may not enter into a written contract with the person unless the contract requires that payments to the vendor under the contract be applied directly to the vendor's account. See [State of Texas Procurement and Contract Management Guide](#) – Warrant/Payment Hold Check section.

Recommendation/Requirement

The Commission must ensure they perform a warrant hold check according to the [State of Texas Procurement and Contract Management Guide](#) and maintain documentation of all required vendor compliance checks before the contract is executed.

Commission Response

Warrant Hold Status screen-print of awarded vendor is required in each agency procurement or solicitation and is part of Solicitation Compliance Checklist.

The agency's Contract Manager reviews the Solicitation Compliance Checklist and confirms completion with signature and date.

Missing Vendor Historically Underutilized Business (HUB) Review

Agencies considering entering into a contract with an expected value greater than \$100,000 are required, before soliciting bids, proposals, offers or any other applicable expression of interest, to determine whether subcontracting opportunities are probable under the contract. See [State of Texas Procurement and Contract Management Guide](#) – Appendix 30. If such opportunities are available, the agency's solicitation documents are required to convey that probability and require a HUB subcontracting plan (HSP).

Both of the two contract files reviewed contained the vendors' HSPs submitted with their proposals. One of these contracts, awarded in 2014, did not include documentation of agency review of the HSP before awarding the contract. [Chapter 34 Texas Administrative Code Section 20.285\(e\)](#) requires the HSP to be reviewed and evaluated prior to contract award and, if accepted, the plan shall become a provision of the state agency's contract. Review of the HSP is not intended to affect the score of one vendor's



proposal against another. However, the review of the HSP ensures each vendor has made (or plans to make) a good-faith effort to contribute to state HUB contracting goals. Agency documentation of this review would show the agency has considered the vendor's HSP and made a determination of the vendor's good faith efforts to consider HUBs and subcontracting, even if the vendor chooses not to subcontract. Without the review, auditors could not be sure good faith was established at the time the contract was awarded.

The Commission said that at the time the contract was executed, the contract manager, who was also the HUB coordinator, reviewed the HSPs before the contracts were signed, but did not fully document this process. In fiscal 2016, the Commission revised its HSP reviews to formally document this review process.

Recommendation/Requirement

The Commission must abide by the procurement procedures in the [State of Texas Procurement and Contract Management Guide](#) section on HSP requirements, to determine whether subcontracting opportunities are probable under the contract and, if so, that probability must be clearly stated and require a HSP. The Commission must enhance its procurement process to ensure adequate documentation is maintained to meet all procurement requirements.

Commission Response

Each HSP will be reviewed and approved by the agency's HUB Coordinator or Purchaser assigned with the task and will complete a new HUB Subcontract Plan Review Form and sign/date. This form is now a requirement of the Solicitation Compliance Checklist and will be placed in the procurement file.

The agency's Contract Manager reviews the Solicitation Compliance Checklist and confirms completion with signature and date.

Purchase Transactions

Auditors developed a representative sample of 20 purchase transactions (totaling \$17,202.29) to ensure that the Commission complied with the GAA, other relevant statutes and Comptroller requirements. Audit tests revealed the following exception in purchase transactions.

Payment Of Unauthorized Fee

The Commission paid a fee added to an invoice after the price had been settled by a purchase order. The Commission received a quote of \$2,595 for a trailer to transport landscaping equipment that contained the words "exempt from TT&L." The Commission



issued a purchase order to the vendor for \$2,595. The vendor then submitted an invoice with the addition of a \$5 "eTag fee." This fee is charged by the Texas Department of Motor Vehicles for a temporary paper buyer tag. Before paying, the Commission approved a revised purchase order to meet the invoice price including the fee.

While a dealer must issue buyer tags for vehicles sold to exempt agencies, the exempt agency is not required to pay the fee. For these types of transactions the tax office should NOT collect the fee. Therefore, the Commission was exempt from paying the temporary tag fee. See [Texas Department of Motor Vehicles – Buyer Tags](#).

Recommendation/Requirement

The Commission should consider recovering the amount of overpayment unless it determines it is not cost-effective to do so. The Commission must not revise purchase orders without additional consideration provided by the vendor.

Commission Response

The agency will not pay additional amounts not included in purchase order without further consideration from the vendor. Agency purchasers have received training on Purchase Order Change Notices as part of CAPPs implementation to review any changes to the purchase order per state rules and requirements.

The agency determined it is not cost effective to obtain reimbursement of this payment of state fees. Any questionable charges will be reviewed by both the contract manager and the chief accountant.

Travel Transactions

Auditors developed a representative sample of 10 travel transactions (totaling \$1,472.46) to ensure that the Commission complied with the GAA, other relevant statutes and Comptroller requirements. Audit tests revealed no exceptions in travel transactions.

Internal Control Structure

Control Weakness Over Expenditure Processing

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff's ability to process expenditures. We reviewed the Commission's security in the Uniform Statewide Accounting System (USAS), Uniform Statewide Payroll/Personnel System (USPS), Texas Identification Number System (TINS) and voucher signature cards that were in effect on March 23, 2018. We did not review or test any compensating controls that the Commission might have relating to USAS, USPS or TINS security or internal transaction approvals.



The Commission had two employees who retained the ability to approve payment vouchers and pick up warrants from the Comptroller's office without oversight. These two employees were also noted with these capabilities during the prior expenditure audit in 2014. To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible.

The Commission had some overlapping responsibility in its transaction approval process that has since been resolved by adding accounting staff. The Commission responded to this audit by removing the two employees from the warrant pickup list, as it no longer needs to maintain the two as alternates to pick up warrants.

Recommendation/Requirement

To reduce risks to state funds, agencies must have controls over expenditure processing that segregate each accounting task to the greatest extent practicable. Ideally, no individual should be able to process transactions without another person's involvement.

The Commission must limit user access by removing the user from the Agency Authorization for Warrant Pickup list or by removing the user from the agency's signature card.

Commission Response

The agency reviewed the signature card and the Agency Authorization for Warrant Pickup on file with the Comptroller. On May 5, 2018, the personnel noted in the findings were removed from the Agency Authorization for Warrant Pickup, and the agency confirmed removal of personnel. Staff roles will be reviewed by the chief financial officer annually, and any changes to signature cards and Agency Authorization for Warrant Pickup.

Security

The audit included a security review to identify any of the Commission's employees with security in USAS or on the voucher signature cards who were no longer employed or whose security had been revoked. All three employees on the Commission's signature cards were reviewed. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of the Uniform Statewide Accounting System (USAS) and either:
 - The Uniform Statewide Payroll/Personnel System (USPS),
 - The Standardized Payroll/Personnel Report System (SPRS),
 - The Human Resource Information System (HRIS) or
 - The Centralized Accounting and Payroll/Personnel System (CAPPs).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

We audited a sample of the Texas Historical Commission (Commission) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning Dec. 1, 2016, through Nov. 30, 2017, to determine compliance with applicable state laws.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The Commission receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Commission should implement the recommendations listed in the Detailed Findings of this report. It is the Commission's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based upon the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcations or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what course of action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

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Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Non-compliant

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Non-compliant

Repeat Finding

Definition	Icon
This issue was identified during the previous post-payment audit of the agency.	A circular icon with a stylized 'R' and a circular arrow, indicating a repeat finding.